

## Protectionism Is Strategically Irresponsible

21 May 2009

We learned more bad news about the Russian economy last week. According to new data from the State Statistics Service, the country's gross domestic product contracted in the first quarter by 9.5 percent, industrial output fell by 14.3 percent and unemployment rose by 9.5 percent.

Does the government understand the seriousness of the situation? Yes and no. On one hand, it has become fashionable for officials to give pessimistic predictions about the economy. Take, for example, the statement by presidential economic adviser Arkady Dvorkovich at the Krasnoyarsk Economic Forum in February. He said it is useless for businesses to ask the government to bail them out. Or take Finance Minister Alexei Kudrin's notoriously chilling comments about the crisis and the burgeoning budget deficit.

Another indication that the government is aware of how bad things have become is that it has stopped trumpeting its plans for modernizing the country in the near future. Modernization will have to wait for a better time -- or perhaps a different government.

On the other hand, there are signs that other leaders do not understand the seriousness of the crisis. For example, the government is continuing its plans to increase the size of state holding corporations by buying up private companies that have fallen on hard times. It was announced in early May that Russian Technologies is preparing to purchase Moscow-based Depo Computers. It would seem that the government has not lost its appetite for snatching up private businesses -- a common practice from 2005 to 2007 -- by declaring them to be "strategically important" and gaining control of them any way it can.

But now, the more urgent task is to decide which of the companies the state already controls are really of strategic importance and to dump the rest. As the United States and many European countries have demonstrated since the crisis broke out, it is sometimes necessary -- as a last resort -- to nationalize vital companies (for example, 80 percent of AIG), but only if their failure would deliver a shattering blow to the nation's financial and economic foundation, spreading chaos and turmoil across all sectors both in domestic and global markets. In those cases, the government must act decisively. But there are individual firms and even entire sectors whose failure would cause only small, localized damage, and the government has no business acquiring control of them. If a private company like Depo Computers cannot survive on its own, the country will have to manage without it.

Every company that falls under state control comes with a price tag attached, even if those costs are indirect or hidden. For example, when industry lobbyists approach the president and prime minister to ask for protectionist measures, the most common justification is that protectionism will save thousands of jobs at local factories and in related businesses, such as suppliers.

What they do not mention is that citizens as a whole end up footing the bill one way or another for these protectionist measures. Protectionism, of course, means higher prices for the nation's consumers, a much broader base than the factory workers and suppliers who benefit directly from protectionism. As a rule, these broader costs of protectionism outweigh the narrow advantages that a few factory towns and related industries gain from holding on to their jobs.

The government should not let the interests of lobbyists outweigh those of its citizens.

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